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Summary

If approved by a majority of the voters, Measure X¹ would impose a business license tax on all commercial cannabis activities within the City of Chula Vista. The City's Finance Director estimates that Measure X would generate approximately \$6 million per year in tax revenues. The City may spend such revenues for any lawful City purpose. The tax has no expiration date and would continue in effect unless modified or repealed by voters.

Voter approval of Measure X would have the effect of repealing the City's existing ban on cannabis businesses and replacing it with regulations that allow such businesses to operate in the City, on specified terms. If voters don't approve Measure X, the City's existing ban on commercial cannabis activities would remain in effect.

Authority and Method of Assessment

The Measure X tax is authorized for levy under Article XIIC of the California Constitution and Article II of the City Charter. The Measure would impose an excise tax on all cannabis business activity conducted in the City. Cultivation businesses would be taxed at a rate in the range of \$5 to \$25 per square foot of plant area. All other cannabis businesses (for example, storefront retail, delivery, manufacturing, distribution, and testing) would be taxed at a rate in the range of 5% to 15% of their gross receipts. From time to time, the City Council would set the actual tax rates to be imposed within these ranges. Voter approval would be required to impose a tax rate above or below these ranges.

Effect on City's Existing Commercial Cannabis Ban

In March of 2018 the City Council adopted an ordinance (the "Commercial Cannabis Ordinance") to allow for the licensing and operation of cannabis businesses within the City. The effectiveness of this ordinance was made expressly contingent upon voter approval of a tax on cannabis businesses, like the tax proposed by Measure X.

If Measure X passes, the Commercial Cannabis Ordinance would become operative, and the City could begin issuing licenses to qualifying cannabis businesses as early as January 1, 2019. The Commercial Cannabis Ordinance contains detailed provisions regarding the types of cannabis businesses allowed, the number of licenses available, owner/operator qualifications, zoning, and minimum setbacks from sensitive uses, such as, schools and parks. A copy of the Commercial Cannabis Ordinance is available from the City Clerk or online at: <https://www.chulavistaca.gov/home/showdocument?id=18035>.

¹ The City Clerk is authorized to replace the term "Measure X" with the measure designation assigned by the County Registrar of Voters, wherever it appears in this Analysis.

If Measure X is rejected, the Commercial Cannabis Ordinance would not take effect, and the City's existing ban on cannabis businesses would continue. Cannabis deliveries from licensed dispensaries located outside the City would continue to be allowed.

Payment and Enforcement

Measure X contains detailed provisions for the calculation, reporting and payment of taxes owed. The City Manager is authorized to administer and enforce its provisions, including the authorization to audit records, verify tax returns, and impose penalties for non-compliance.

General Purpose Tax

The City Council is submitting Measure X to the voters as a "general purpose tax." This means that the City Council will have discretion to spend Measure X revenues on any lawful municipal purpose. Although not legally bound to do so, the City Council has expressed its intent to spend a portion of Measure X revenues to fund enforcement against illegal cannabis businesses.